

Message Text

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AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

C O N F I D E N T I A L ROME 1201

LIMDIS GREENBACK

PASS TREASURY AND FRB

E.O. 11652: GDS

TAGS: EFIN, IT

SUBJECT: OSSOLA COMMENTS ON INTERNATIONAL MONETARY AFFAIRS

REF: (A) ROME 012E

(B) ROME 0265

(C) ROME 17729

1. SUMMARY. TREASATT SAW BANK OF ITALY VICE DIRECTOR
GENERAL OSSOLA JANUARY 27 TO DISCUSS FOLLOWING POINTS:

- (1) RESULTS OF WASHINGTON MEETINGS OF G-10 AND IMF AND
- (2) PROSPECTS FOR FINANCING ITALY'S EXPECTED 1975 BALANCE
OF PAYMENTS DEFICIT. END SUMMARY.

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2. COLOMBO AND CARLI STATEMENTS ON SOLIDARITY FUND. FIRST OF ALL, OSSOLA SAID THAT HE AND BOI GOVERNOR CARLI WERE CHAGRINED BY PRESS REPORTS OF SOME RECENT STATEMENTS ATTRIBUTED TO TREASURY MINISTER COLOMBO AND GOVERNOR CARLI WHICH CONTAINED CRITICAL COMMENTS ON PROPOSED OECD SOLIDARITY FUND (REFS A AND B). OSSOLA REGRETTED THAT THESE STATEMENTS HAD BEEN TAKEN OUT OF CONTEXT AND HAD CAUSED SOME DIFFICULTIES FOR ITALIAN DELEGATION DURING WASHINGTON MEETINGS.

3. IMF OIL FACILITY. OSSOLA WAS QUITE PLEASED WITH WASHINGTON COMPROMISE ON IMF OIL FACILITY. HE COMMENTED THAT, NOTWITHSTANDING EARLIER MEETING OF BIG FIVE MINISTERS, G-10 DEPUTIES HAD HAD TO SPEND 4-1/2 HOURS IN NEGOTIATING AGREEMENT ON G-10 COMMUNIQUE. OSSOLA THOUGHT THAT 5 BILLION SDR AMOUNT WAS RATHER SMALL BUT MIGHT BE ENOUGH WHEN COMBINED WITH OTHER IMF RESOURCES. ALSO, DESPITE STATEMENT BY IRAQI GOVERNOR WHICH SEEMED TO FAVOR IMF OIL FACILITY AS LARGE AS \$12 BILLION, OSSOLA WONDERED WHETHER OIL PRODUCERS WOULD REALLY BE PREPARED TO CONTRIBUTE MORE THAN FINAL 5 BILLION SDR FIGURE.

4. OECD SOLIDARITY FUND. OSSOLA WAS PLEASED THAT G-10 MINISTERS HAD AGREED NOT TO PLACE RIGID LIMIT ON DRAWING RIGHTS UNDER PROPOSED SOLIDARITY FUND. WHILE AGREEMENT HAD NOT YET BEEN REACHED ON SOURCE OF FINANCING FOR THIS FUND, OSSOLA WAS INCLINED TO THINK THAT AGREEMENT WOULD BE REACHED FOR DIRECT CONTRIBUTIONS BY MOST COUNTRIES, WITH OTHER COUNTRIES (E.G., GERMANY) CONTRIBUTING GUARANTEES FOR BIS BORROWINGS IN MARKET. ITALIAN HAD BEEN SOMEWHAT DISAPPOINTED AT EMPHASIS PLACED ON "LAST RESORT" NATURE OF DRAWINGS FOR SOLIDARITY FUND FOR FEAR THAT ANY COUNTRY RESORTING TO FUND WOULD IMMEDIATELY BE CLASSED AS VERGING ON BANKRUPTCY. HOWEVER, THEY UNDERSTOOD REASONS FOR STRESSING THIS ASPECT OF FUND FROM POINT OF VIEW OF POTENTIAL CREDITOR COUNTRIES.

5. IMF QUOTAS. OSSOLA WAS PLEASED THAT INTERIM COMMITTEE HAD BEEN ABLE TO AGREE TO 32.5 PERCENT INCREASE IN IMF QUOTAS. HOWEVER, HE WAS SOMEWHAT CONCERNED ABOUT PROSPECTS FOR ALLOCATING QUOTA CUTS AMONG DEVELOPED COUNTRIES. AT WASHINGTON MEETINGS, US, JAPAN AND GERMANY HAD ALL INDICATED THAT THEY DID NOT WISH ANY CUT IN THEIR QUOTAS AND DUTCH

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THOUGHT THAT THEY DESERVED SOME INCREASE, AS AN ENERGY EXPORTER. IT WAS RATHER DIFFICULT TO SEE WHICH COUNTRIES WOULD BE WILLING TO ACCEPT NECESSARY CUTS IN QUOTAS. OSSOLA ACKNOWLEDGED THAT ITALY MIGHT BE ABLE TO ACCEPT MODEST REDUCTION BUT IT WISHED TO PRESERVE ITS RIGHT TO CHOOSE ITS OWN EXECUTIVE DIRECTOR.

6. GOLD. OSSOLA THOUGHT THAT SIGNIFICANT PROGRESS HAD BEEN

MADE ON FUTURE ROLE OF GOLD INCLUDING GENTLEMEN'S AGREEMENT FOR INTERIM PERIOD AIMED AT AVOIDING NET INCREASES IN CENTRAL BANK GOLD HOLDINGS. HE SAID THAT, WHILE FRENCH WOULD NOT WANT TO OPENLY SUBSCRIBE TO SUCH AN AGREEMENT SO AS NOT TO LOSE FACE, THEY WOULD VERY LIKELY ABIDE BY AGREEMENT, AS HAD BEEN THE CASE WITH MARCH 1968 GOLD AGREEMENT.

7. FINANCING ITALY'S 1975 DEFICIT. OSSOLA SEEMED FAIRLY OPTIMISTIC ABOUT ITALY'S ABILITY TO FINANCE ITS EXPECTED 1975 BLANCE OF PAYMENTS DEFICIT. HOWEVER, HE ACKNOWLEDGED THAT THE BANK HAD NOT YET DRAWN UP A DETAILED FINANCING PROGRAM FOR 1975. SOMEWHAT SURPRISINGLY, HE SAID THAT HE WAS NOT IN FAVOR OF PROPOSED EC BORROWING FROM OIL PRODUCERS. HE THOUGHT THAT THIS TECHNIQUE WAS INFERIOR TO BOTH IMF OIL FACILITY AND TO SOLIDARITY FUND APPROACH. ITS WEAKNESS WAS THAT CREDITORS WOULD KNOW WHICH COUNTRIES WERE TO BE ULTIMATE BORROWERS. THIS COULD AFFECT TERMS OF LOAN AND HAVE ADVERSE PSYCHOLOGICAL EFFECTS ON THESE BORROWERS. OSSOLA THOUGHT THAT HE HAD DISCOURAGED GOVERNOR CARLI FROM THIS SOURCE OF FINANCING, BUT RECOGNIZED THAT CARLI AND COLOMBO HAD BOTH COMMITTED THEMSELVES, TO SOME EXTENT, TO USE OF THIS FACILITY. PRESUMABLY SOME DECISION WOULD HAVE TO BE MADE BY ITALIAN AUTHORITIES AS TO WHETHER OR NOT TO FORMALLY ASK FOR EC BORROWING WHEN EC MINISTERS OF FINANCE CONVENED ON FEBRUARY 17.

8. AS T USE OF EXPANDED IMF OIL FACILITY, OSSOLA NOTED THAT IMF WAS CONTINUING TO USE DECLINE IN GROSS RESERVES AS CRITERION OF ELIGIBILITY FOR BORROWING. BECAUSE OF \$2. BILLION GERMAN GOLD LOAN, BOI GROSS RESERVES WERE NOW RATHER HIGH BUT OFFICIAL LIABILITIES WERE VERY LARGE AND NET RESERVE POSITION WEAK. THEORETICALLY, ITALY MIGHT EVEN BE ASKED TO MAKE REPAYMENTS ON 1974 OIL FACILITY DRAWINGS
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THIS YEAR. IN ANY CASE, OSSOLA INDICATED THAT ITALIANS SAW IMF OIL FACILITY AS IMPORTANT POTENTIAL SOURCE OF ITALIAN BORROWING IN 1975.

9. OSSOLA PROFESSED IGNORANCE ABOUT EXACT STATUS AND PROSPECTS FOR DIRECT ITALAN BORROWING FROM IRAN AND SAUDI ARABIA. HE SAID HE WAS NOT JUST BEING "RETICENT" BUT REALLY DID NOT KNOW ABOUT THIS. HE PLANNED TO INQUIRE FURTHER WITHIN BANK AND WITHIN GOI. HE HAD IMPRESSION THAT REPORTED ADVANCE PAYMENTS OF \$1. BILLION OR MORE FROM IRANIANS WAS STILL ONLY VAGUE COMMITMENT (SEE REF C).

10. AS TO PROSPECTS FOR EUROMARKET BORROWING, OSSOLA SEEMED TO CONTEMPLATE THAT 1972-1974 EUROMARKET TERM LOAN REPAYMENTS WOULD BE MET ON SCHEDULE IN 1975. HE DID NOT COMPLETELY

EXCLUDE POSSIBILITY OF PARTIAL REFINANCING BY EUROBANKS, BUT
HAD EVIDENTLY NOT THOUGHT MUCH ABOUT THIS POSSIBILITY. HE
MENTIONED THAT \$3 BILLION SWAP WITH FEDERAL RESERVE COULD
BE USED FOR "BRIDGE" FINANCING OF DEBT REPAYMENTS, IF THERE
WERE SHORT-TERM CASH FLOW PROBLEM. HE MENTIONED THAT BANK
OF ITALY MIGHT TERMINATE \$500 MILLION SWAP LINE WITH BUNDESBANK,
SINCE SWAP WAS MAINLY FOR UNNECESSARY WINDOW DRESSING PURPOSES.
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